

# ICPS newsletter®

## Simplifying permits is one step to less corruption and lower housing prices

**ICPS and the Ukrainian Construction Association (UCA) are running a series of roundtables whose goal is to jointly develop proposals to tackle problems that obstruct the development of a proper housing market and push residential prices up. The second roundtable, on 22 May 2007, looked at how the permit system might be simplified. The red tape involved in getting permits is one of the main factors that limit the number of housing starts, discourage new investors from entering the construction market, encourage corruption as a way to cut through the bureaucratic red tape, and increase costs for builders. In the end, all this pushes housing prices upward**

### The problems with permits

The process of putting together the necessary documents to get construction permits is dragged-out and complicated.<sup>1</sup> Moreover, there is no unified approach in Ukraine: regional and local regulations that list the documents and materials needed to obtain a permit for developing a property and identify the procedure for reviewing these documents can differ significantly from place to place.

One negative factor is the obsolescence of general, regional and urban development plans—and, in some cases, their total absence. Too often, interested parties have a difficult time just obtaining information about permit procedures.

Other problems include the lack of regulation for certain procedural points, such as clear-cut deadlines for vetting documents, and chaotic fee structures<sup>2</sup> because there is no unified procedure for establishing the size of fees for issuing permits. Many decisions

related to construction, especially the allotment of land for building purposes, are often made in a closed manner, without considering the interests of the community or the investors.

### Construction legislation is not constructive

These problems are largely the result of overly complicated and inconsistent legislation. Currently, a huge number of unsystematic, sometimes also outdated regulations and legislation govern the process of developing property and acquiring ownership rights for both land parcels and properties. These documents themselves are often contradict one another, are unnecessarily complicated and, in most instances, are actually both irrelevant and impracticable.

Altogether, these problems encourage bureaucratization and corruption and deprive even the most conscientious investors of the option of organizing

construction in strict observance of the law.

UCA specialists prepared a number of proposals for changing the Land Code. These focus mainly on defining clear-cut procedures for allotting land parcels to use or to lease.

### Convolution leads to corruption

Complicated procedures for getting building permits are the main reason why investors and developers resort to corrupt approaches. To fulfill all the current requirements takes far too much time and incurs significant financial costs.

At the same time, the many loopholes on the procedural side make it possible for bureaucrats to make subjective decisions not based on legislative norms. This means that investors or developers have no guarantee that they will get the necessary permits, even if they fulfill all legal requirements.

In such a system, corruption inevitably became the instrument that sped up the process, sometimes cutting the cost of construction-related permit procedures and significantly increasing the chances that investors and developers would actually get their permits in the end. This is why business, which, by nature, has to make pragmatic decisions, frequently tolerates corrupt solutions.

### Simplifying the permit system: first step to reform

UCA and ICPS specialists agreed that the three basic elements for reforming the permit system and eradicating corruption in construction should be simplicity, publicness and competition.

<sup>1</sup> The typical commercial builder needs 274 signatures, which take at least 18 months to get. Just to get permission to begin construction work sometimes takes more than two years.

<sup>2</sup> Moreover, not infrequently the actual cost of getting a permit significantly differs from the amount established by regulation—by as much as 100% and more. Where regulations do not mention a fee for permits at all, these can cost from UAH 500 to UAH 1,500. For example, to get a document to change the zoning of a piece of land costs UAH 1,500, a permit to set aside part of a property for a point-of-sale costs UAH 1,000, while a document for the preliminary selection of land for building costs UAH 500. Some of the most expensive permits and those that simultaneously also take the longest time are permission to begin construction work (UAH 6,330, 78 days) and allotment of a piece of land (UAH 3,626, 134 days).

Clearly, it makes sense to reform building permit procedures in such a way so that businesses will not need to resort to underhanded means to get their go-aheads. The first step in this reform is to completely simplify the system for getting construction permits.

One option for reaching this objective is to institute the use of a "one-stop-shop" approach to getting permits that already exists in other areas in Ukraine. This will make it possible:

- to minimize interactions with bureaucrats;
- to radically reduce the number of offices that a developer must visit to obtain permit documents;
- to speed up the process of obtaining permits substantially;
- to eliminate numerous duplications in the submission and vetting of documents.

## Public decisions prevent corruption

The decision-making process should not only be based on clear-cut and simple rules, but also be public. The best way to eliminate corruption is through public, open and transparent decision-making.

For example, instituting the practice of holding open land auctions should make the process of selling land for construction purposes transparent and comprehensible. The way such auctions are organized is the best example of open activity on the part of local governments. It also attracts potential investors and raises a region's rating significantly. Indeed, this kind of approach benefits just about everybody:

- it helps local governments demonstrate their publicness and to allay suspicions of corruption;
- it makes it easier for businesses to acquire land through auction,

because they spend much less time on bureaucratic paper chases;

- it allows local communities to raise more money through their most valuable resource, land.

It is equally necessary to spread the practice of calling for investment tenders where investors are offered a parcel of land together with a ready-made development project and the full set of documents. That is, the most thorny issues related to the right to use a land parcel will be resolved up front, together with urban planning approvals and project documentation. At the same time, this provides a solution to the issue of community interests in the development or redevelopment of an investment property.

## Fair and open competition combats backroom deals

One of the basic resources in construction is land, which is used for development purposes. Obviously, many permit procedures are related specifically to the allotment of this resource.

As land is a limited resource and the price for land suitable for development grows constantly, competition among developers for this resource is also growing stronger. Unfortunately, corruption is one instrument that can offer an edge in this struggle. Yet, corruption as a way for local governments and businesses to cooperate in solving land-related issues benefits only individual bureaucrats and businesses. Cities, communities and the overwhelming majority of investors lose in the process.

This is why establishing a competitive environment is an important way to improve the situation with both land and permits. Fair and open competition is one way to eliminate corruption, to improve the efficiency of resource use and distribution, and also to increase local budget revenues.

## By the way...

On 28–29 May, ICPS analyst for European integration and foreign policy Natalia Shapovalova participated in a seminar organized by Migreurop, a European network of community organizations, and dedicated to the externalization of EU migration policy. During the seminar in Ljubljana, participants discussed the extension of readmission treaties to the EU's eastern and southern neighbors, the operation of migrant detention centers, the implementation of the right to asylum, and prospects for expanding the work of the Migreurop network into Eastern Europe, especially Ukraine.

On 17–18 May, ICPS economists Ildar Gazizullin and Hanna Cherednychenko participated in a seminar and press conference on the project "Industrial Restructuring in the NIS: the Experience of the New EU Member States and Lessons Learned." The event took place in Moscow.

Meanwhile, private individuals and legal entities alike will have equal opportunities to obtain parcels of land to carry out urban planning and investment projects on a competitive basis. Land for urban planning needs should be allotted in full compliance of general development plans, local development rules and other urban planning requirements. This all needs to be developed and adopted in a transparent manner and be accessible to the general public. ■

*The Ukrainian Construction Association includes more than 100 organizations working on the real estate market.*

*On 16 March, the UCA and ICPS held their first roundtable, dedicated to the topic, "How to Lower Housing Prices: The Law on Public Debate."*

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